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ABSTRACT

These teacher developed case studies taken from the business world are presented to help secondary students develop an understanding of economics and of the decision-making process. The studies describe real business situations. All historical and current facts are provided, and students must analyze the data and make business decisions. Teacher directions are provided for each of the three case studies. In the first case students play the role of the chief executive officer of the Boston Gas Company. The student must make the decision to solve the immediate problems in the areas of public relations and meet the unprecedented demand to convert to gas. The second case which considers a number of options by which the cost of health care might be reduced is presented through memos from the Blue Cross president and treasurer. Students are asked to decide what plan they might think desirable and reasonable. The small business environment is the topic of the final case study. Students discuss how a small family corporation could expand into manufacturing while still maintaining their position in the distribution market. Also included in the publication is a discusssion of how to use case study materials in the classroom. (Author/RM)

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1979 DECISION-MAKING CASEBOOK FOR BUSINESS AND ECONOMICS

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BUSINESS HISTORY AND ECONOMIC LIFE PROGRAM, INC.
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We wish to thank the members of FEI not only for their financial support of this important venture in cooperative business education, but for their personal commitment to a more positive relationship between business and the society it serves.

In particular, the members of the FEI Committee on Government and Business relations arranged for the companies that were used as case subjects by the workshop members. Without this vital assistance, these materials, which are meant for classroom use by young people, would not have been developed. Thanks also to those companies who allowed us to print their cases for their openness and concern for the success of this project.

Unless otherwise indicated, all company names and situations are real. These cases are to be regarded as illustrations for classroom discussions rather than as solutions to specific problems.

The Editors.

INTRODUCTION

Since 1961 the Business History and Economic Life Program has been training teachers and developing case materials to augment and strengthen economic offerings currently available to teachers. It is a truisim of American civilization that business touches all of our lives. The history and anecdotes aurrounding business provide a colorful approach to the reasons why we should support our citizens learning and understanding economics in the first place. Business approached through an historical manner can be used to arouse interest and concern for the many facets of economic and business life--both private and public.

This casebook has been prepared by classroom teachers with secondary students in mind. Such a product is a reflection of the talent, experience, and sensitivity that exists among the workshop members as well as the tremendous help and support of businessmen interested in the same problems. As one uses these cases, it should be noted that the intent is to develop economic understanding rather than the detailed perspective of a business decision-maker.

Real economic situations within the context of a regular secondary school curriculum can lay the groundwork for a realistic understanding of economic problems. Real situations like these are a most effective means by which teachers can reach students at all levels. In particular, business cases are most effective in introducing economics to the classroom because they center on real people in specific situations. The limit of their use is the limit that a user wishes to make.

These cases can provide abundant material for analysing and probing economic relationships. These cases can provide a means by which a teacher can extend his students understanding beyond the single firm. The cases thus give greater meaning to the student than abstract entities.

This fourth casebook is shorter than our previous editions because of the non-release of several cases and the fact that several others were not considered to be ready for publication. However, it is hoped that even this shorter version can continue to aid teachers in planning and developing their own cases for their own classrooms.

For more detailed information on how to utilize cases and case method, please consult the free publication available from the Federal Reserve Bank of Boston (Public Affairs, Boston, MA 02106)--Paul H. Tedesco, Teaching With Case Studies (revised edition, 1979).

In addition, we have published a chapter, "Case Materials in the Classroom," from the above publication as well as a model diagram of what a good case discussion might look like in comparison to the more traditional learning approaches.

If you have further requests, please contact Dr. Paul H. Tedesco, National Coordinator, BHELP, 219 CU, Northeastern University, Boston, Massachusetts 02115. 617-437-3302.

CASE MATERIALS IN THE CLASSROOM*

Since business and businessmen touch the lives of all of us, the history of their past activities is a subject well-adapted to the task of arousing and maintaining student interest in the many facets of economic life, both public and private. By presenting students with real economic situations within the context of their regular secondary school social studies curriculum, a groundwork can be laid for a realistic understanding of economic problems by students of all abilities and interests.

Business is a distinctive aspect of our economic, political, and social life. No matter what our attitudes may be about particular businessmen or business activities, the institution of business is as much a part of our American heritage as any of our political institutions. Indeed, our tradition of decentralized decision-making in economic matters – allowing each man to choose his own occupation or to determine the policies of his firm – is intimately associated with our tradition of political democracy. Underlying both traditions is a philosophical assumption that events are not predetermined – that men have some control over their destinies.

*By permission. This section is an edited version of the "General Teacher's Introduction" which appeared in the "Teacher's Editions" of *The Formative Era of American Enterprise* (Boston: D.C. Heath and Company, 1968), volumes 1 and 2 in Case Studies in Business History and Economic Concepts, edited by Ralph W. Hidy and Paul E. Cawein. Copyright renewed 1972, Business History and Economic Life Program, Inc.

This article was originally published in Paul H. Tedesco, Teaching With Case Studies (Boston: The Federal Reserve Bank, 1974-revised 1978).

Cases about business provide a particularly effective way to introduce students to economics because they center on real people in specific situations. As a flexible resource, cases can be employed to clarify both history and economics on many levels of sophistication.

The case studies that have been prepared by BHelp (Business History and Economic Life Program, Inc.) make it possible for the secondary school student to experience intimately the historical development of American economic life. Most of the cases deal with a specific business firm or industry and recapture in capsule form the interplay of groups and individuals whose decisions and actions not only influenced the fate of one firm, but inevitably helped to forge the traditions and patterns of our lives today. Through the experience of analyzing for themselves some of the economic, political, social, and even psychological relationships which underlie our history, students can begin to develop the analytical skills, conceptual knowledge, and historical perspective necessary to deal effectively with the complex relationships of the present and of the future, particularly in the areas of business and economics.

Since World War II scholarly research in the field of business history has gained momentum. Most of our school textbooks, however, have failed to keep up with or have ignored the flow of this new material, and the presentation of business is often unbalanced and misleading. Too often, emphasis is placed upon antisocial behavior without acknowledging the constructive achievements of American businessmen.

The object of the business historian and of the economist is neither to praise nor to condemn, but to understand. Every attempt has been made to be objective in the preparation of cases to be used in the classroom. Controversial decisions have been presented as freely as constructive accomplishments. History written in this fashion affords students the opportunity to examine society in the process of change. Hopefully, students will gain from their study not only a clearer perception of the contemporary world, but also a

better understanding of the process of change in which they themselves will soon be taking a part.

WHAT IS A CASE?

As used in business schools, "a case is a description of an administrative decision or problem. It is normally written from the point of view of the decision-maker involved."[1] The situation described in a case is presented in such a way that each student must make a decision about the situation. The teacher, after bringing the class to the main point of the case, then presses the decision of each student to the limit. Cases are written so that definitive answers are not given.

Although they are usually written, cases can assume many different forms. Generations of law students have argued hypothetical cases before a moot court, a practice which can be described as case role play. Medical students daily hover over actual patients and, directed and prodded by a professor/doctor, diagnose what is wrong using case histories. In fact, cases have taken various forms as used in different professions.

Andrew R. Towl, Director of Case Development, Intercollegiate Case Clearinghouse, Harvard Business School, finds "it useful to think of a case as a connecting link which draws together the experience of the executive on the job, the executives (and potential executives) in management development programs, and the researcher in his efforts to understand the process of management. The written cases are catalysts to speed the process of learning from experience."[2]

The written case can be long or short; it can be drawn from observation or from research in secondary or primary sources. The typical case in business history is based upon secondary sources and, focusing on a businessman, firm, or function, it carries a story through some period of time. It is,

[1] Michael R. Leenders and James A. Erskine, *Case Research: The Case Writing Process* (London, Canada: Research and Publications Division, School of Business Administration, The University of Western Ontario, 1973), p.11.

[2] *Ibid.*, p. 12.

in short, a very limited slice of history. A case can be general in approach (and therefore used in a variety of contexts) or it can be addressed primarily to one or two types of questions (e.g. Why was industry X brought under government regulation? Can policy be centralized while responsibility for its execution is decentralized?). Obviously, what a case writer includes and what he omits are determined by what uses he sees for the case. A good case writer must be sure that he does not give any "answers" through pointed generalizations or summaries that deprive the student of the opportunity of assessing the evidence for himself.

THE CASE STUDY METHOD

The case study method is not new; teachers have regularly employed it in limited areas, but the use of carefully written cases based upon documentary resources is finding increasing popularity among teachers in many fields. Teaching with the case study method, however, requires a specific orientation on the part of the teacher. Class discussion, even though it must be free and follow the students' train of thought and development of ideas, must be led. The teacher must not only be continually aware of the thinking of a variety of individual students, but must also develop and maintain a balance between the freedom which generates learning and creative thinking and the control which maintains the priorities for discussion established by the teacher in planning the class.

EDUCATIONAL GOALS OF THE CASE METHOD

Since case studies have been prepared to supplement a variety of secondary school courses, specific learning goals have been left flexible – open to variations in courses and curricula. In addition, case studies developed in conjunction with BHelp have been written by practicing classroom teachers, thereby increasing the value of the material. It is expected that teaching techniques will vary with teachers and students; however, extensive experimental use of BHelp cases has shown certain goals and methods to be most effective.

In the areas of *historical* understanding, the cases are designed:

- to show the role of the businessman, both constructive and destructive, in the social and economic development of our society.
- to illustrate some of the possible relations between governmental and economic units in society.
- to encourage an appreciation of the skills of historical analysis — the complexity of multiple-causation, the importance of environment, the ever-present character of change, and the difference between factual data and interpretation.
- to assist students in developing an awareness of underlying elements of value conflict as they arise from changes in norms from one period of time to another and to expose and clarify value conflicts as they operate within individuals.

In the area of *economic* understanding, the cases are designed:

- to help develop the student's capacity to think rationally about economic issues through discussion of specific historic situations, with continual reference to their meaning in the total structure of the national economy — an emphasis on microeconomics with an inferential bridge to macroeconomics.
- to introduce students to some of the vocabulary of economics within the context of specific situations.
- to illustrate some basic economic concepts, for example:
  1. the nature and scarcity of productive resources.
  2. the significance of specialization and division of labor in the production and exchange of goods and services.

3. the role of savings in the process of capital formation.
4. the operation of the price-market-profit mechanism in determining the allocation of resources in a private enterprise system.

In summary, the goals of the case method are to expand the awareness and understanding in secondary school students of the function of private decision-making in American economic life.

WHEN TO USE CASES

Case studies are meant to be relatively flexible; they may be used in a variety of courses to broaden and stimulate specific learning goals. In general, the BHelp cases have been prepared for courses in United States History, Problems of Democracy, Civics, Economics, and General Business. Nevertheless, with careful selection, many cases can be effectively used in the various new courses now being developed in many secondary schools. For example, a case on Andy Granatelli and the STP Corporation can be used in an ecology course.

Several cases fit into specific historic periods, others cover a broad span, and many are more contemporary than historical. While specific economic concepts are emphasized in individual cases, a great variety of concepts are appropriate to them all. Teachers may focus on different learning goals depending on the structure of their course and the sophistication of their students. The cases will prove most valuable when they are discussed in relation to the total context of the course.

Whether or not students study all or only a few case studies over the span of a course, the cases will provide a continual reality orientation for other types of learning activities, and many points which are not mentioned in the discussion immediately can be referred to later.

The pupils in any one class will vary in ability and in background of experience. Even the slowest learner can con-

tribute to the discussion on the level of factual analysis, although some students will find it easier to generalize than others. The students who are the brightest and the most experienced will probably be the most adept at participating in discussion at the level of value judgments. However, the students who move out of participation in the discussion as the complexity deepens will continue a listening-thinking participation if the discussion is lively and if the teacher encourages clear, careful statements of all ideas and opinions.

The teacher should also be aware of other options in case usage. Often cases developed in a multi-media approach will generate greater interest from those same students who tend to retreat as a written case discussion gets more and more complex. Also, if the teacher is able to rewrite portions of cases to fit reading levels, he might well continue to generate interest, as complexity often depends upon vocabulary, sentence structure, etc. Teachers can, with relative ease, fit cases to class level.

ASSIGNING A PROBLEM

It is suggested that a broad question-type problem be presented to the students at the same time as a case is assigned for reading. A number of the BHelp case introductions contain suggested problem assignments for this purpose, both on the level of factual analysis and on the level of value judgments. Case introductions may list detailed questions on both levels which can either be given to the students to clarify the problem or reserved by the teacher to stimulate and direct the class discussion after the reading has been completed.

By assigning a problem with a case, the teacher makes clear to the student that the case history is to be employed in a different manner from the usual textbook. In traditional teaching, the students refer to a textbook of concepts and generalizations. In the case study method, new concepts must be made clear in class discussion. Unlike traditional recitation designed to facilitate rote learning through repetition, the

case study discussion is designed to develop the skills of analysis and generalization. *To remember the majority of factual data presented in the case is not important. The data is there to supply an empirical basis for analysis. Students must use it to formulate their answers to the problem and to support their conclusions in the discussion period.*

Originally, the BHelp cases were developed with fairly elaborate teacher's introductions, including four sets of suggested problem assignments. In addition, these cases were structured in three parts or units and each part had its own problem assignments. Later BHelp cases may or may not contain teacher's materials. The whole idea of teacher's editions is one for much debate, but, for the most part, teachers are encouraged to develop their own assignments to fit the general focus of their course.

The suggested problem assignments approach distinguishes two levels: Factual Analysis and Value Judgments. These levels correspond in part to the realities of intellectual activity and are also related to the breakdown of educational objectives into a "cognitive domain" and an "affective domain." While the two levels can never be entirely separated, they offer opportunities for alternative teaching strategies and also help to emphasize the distinction between facts and judgments.

Factual Analysis On the level of Factual Analysis, students must learn to comprehend and classify empirical information, to analyze it in relation to the problem at hand, and to synthesize it into a valid conclusion. They should be encouraged to evaluate their own and others' methods and conclusions and, indeed, to evaluate the information presented in the case itself. Some students may wish to explore the bibliographic references often furnished at the end of a case for further information. The class discussion should provide an exercise in the skillful analysis of information. The teacher should allow freedom for the students to interact with each other, to support their conclusions, to reveal their assumptions, and to challenge each other when appropriate.

However, it remains the responsibility of the teacher to lead and focus the discussion by asking questions, challenging students' statements, taking a position in a discussion, and suggesting alternative analytical approaches. The skillful teacher will accomplish these activities without monopolizing the discussion.

It is appropriate for the students to draw upon other available information and also for questions to be used as "springboards" to explore broader generalizations in economics, history, and political science. Toward this end, students should be encouraged to correlate generalizations formed from the case with events in other periods of history and with contemporary affairs. While cases often emphasize the uniqueness of human experience, they can also be used to help students to explore ways in which certain patterns of history and social interaction lend themselves to generalizations.

Value Judgments Students should be sensitized to the distinction between factual questions, which can be resolved through the analysis of empirical data, and value judgments, where rightness and wrongness inevitably vary with the value norms and points of view of individuals and groups. They should be helped to recognize that the values and interests of different groups often conflict and that decisions must be evaluated on their merits within the context of the alternatives possible at the time.[3]

The following procedure is suggested for the discussion of value judgment problems:

> Step One Explore the factual information in the case regarding the historical instance of value conflict. Is the conflict based upon disagreement over the:

[3] For a detailed discussion of the role that value issues play in the classroom see: Donald W. Oliver and James P. Shaver, *Teaching Public Issues in the High School* (Boston: Houghton Mifflin Co., 1966), and James P. Shaver and A. Guy Larkins, *The Analysis of Public Issues Program* (Boston: Houghton Mifflin Co., 1973).

1. meaning of terms (definitions)?
2. accuracy or plausibility of events in the world around the participants (factual interpretations)?
3. relative imoortance of certain principles of conduct (value norms)?

Consider the conflict from the standpoint of the various groups and individuals involved.

Step Two Explore the influence of the personal values of the students in viewing the historical situation. In what ways do differences between the historical period and our contemporary world make it difficult for us to understand the problem?

Step Three Explore analogous value conflicts in the contemporary world following the procedure of Step One above. Some of these modern value conflicts will pertain only to our contemporary society. Others will involve the kind of personal value conflicts which men have faced throughout history. For both types, how do the personal values of individual students vary from the generally accepted norms of society? How do the personal values of individual students within the class vary? What is the basis for these variations?

It is important to emphasize that the discussion of conflicting values is not designed to indoctrinate students with any specific point of view. The goal is to help students to understand the underlying elements of value conflict and to develop the skills to identify and clarify their own points of view in discussion with others. The problems discussed must be meaningful for the students. There will be no "right" answers, although there may be certain courses of action which are more acceptable than others in our society or more likely to lead to the personal ends desired. The student should be encouraged to face his own internal conflicting values as well as those values which are in conflict in our society.

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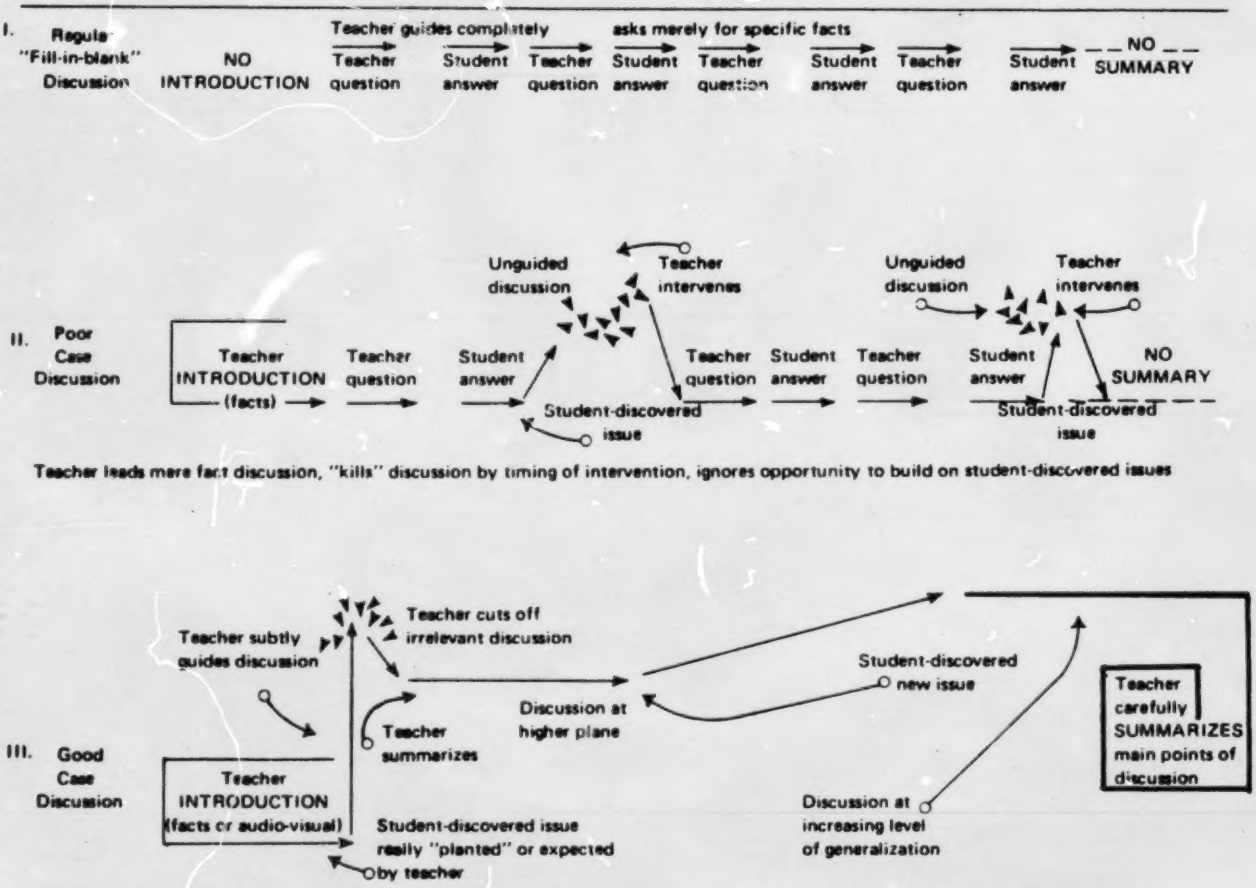
CLASSROOM DISCUSSION – COMPARISION OF APPROACHES



Teacher leads mere fact discussion, "kills" discussion by timing of intervention, ignores opportunity to build on student-discovered issues

Teacher guides subtly, staying in the background, intervening only to keep discussion on track. Most of the time the teacher spends his time listening and carefully recording the points made in the discussion on the blackboard in an organized fashion, using this record as a basis for occasional summaries of the points covered, especially when the discussion gets off track, and for a careful, complete summary of the main points at the end of the class session.

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EVERY SILVER LINING MUST HAVE ITS CLOUD

Having an insatiable demand for a product, without the need for advertising to create demand, together with an adequate supply of one's product, would seem to be the best of all possible worlds for an American businessman. This is what the Boston Gas Company was inclined to believe in 1979.

BACKGROUND

The natural gas industry in the United States began in the early nineteenth century, seeking primarily to provide interior and street lighting. In 1822 the Boston Gas Company was chartered. When the practical use of electric lighting was popularly demonstrated in the early twentieth century, the gas industry shifted its attention to residential and commercial heating and enjoyed a steady growth in the industry. The late 19th and early 20th centuries saw fierce competition and gradual consolidation in the gas industry. Boston Gas, under the leadership of J.L.Richards, merged with several smaller area companies in 1903. In 1929 Boston Gas became a subsidiary of Eastern Gas and Fuel Associates which is also in the coal and river barging businesses.

Gas companies are regulated monopolies and, as such, the New England companies major competition for heating is with the oil industry and with electric utilities for cooking and water heating. Through the 1960's they were competitively priced with oil and actively sought to improve their share (approximately one-third) of the heating market.

DEALING WITH LIMITED SUPPLY

In the early 1970's conditions began to change in the gas market and Boston Gas had to react. Beginning early in 1972, the company

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This case was prepared by Fred Crellin and Ronald Lamothe (Lunenberg, Massachusetts, High School), Henry Devlin (Concord, Massachusetts, Public Schools), Ann Dwyer (Quincy, Massachusetts, Public Schools), and Margaret Hogarty (Waltham, Massachusetts, Public Schools), under the supervision of the 1979 NU/FEI/BHELP Summer Social Studies Workshop faculty, as a basis for classroom discussion rather than to illustrate either effective or ineffective handling of a particular situation.

instituted a policy of deferring connection of new commercial/ industrial heating customers because of anticipated curtailments of its pipeline supply for the 1972-1973 winter season. In 1973, because they expected further pipeline curtailments, extended delays in obtaining imports of liquefied natural gas (LNG) from Algeria, and increased interest in gas conversions caused by shortages in home heating oil, the company instituted a second policy of limiting sales to customers served by existing mains as well as limiting sales to new homes and new commercial and industrial customers.

Since December 1, 1971, the company has experienced up to 24% curtailment of its supply from the Algonquin Gas Transmission Company on days of high demand. Prior to January 1, 1974, the company had not experienced any curtailments from the Tennessee Gas Pipeline Company, but Boston Gas was informed that beginning in November 1974, there would be a serious supply curtailment.

Boston Gas was faced with a declining and uncertain supply of product. The company also had a large sales force with less and less product to sell. Boston Gas officials felt that they had to decide how they were going to deal with this changing market situation. First, they changed their advertising policy--instead of seeking new customers, the company's new ads urged existing customers to conserve fuel.

In August 1974, the company leadership decided to reduce the sales staff by 50 percent. This action was seen necessary to reduce costs. As a procedure, the company decided to reduce the sales force using a seniority standard. Sales personnel with the greatest seniority were urged to consider early retirement--the company offered a generous severance pay.* By January 1, 1975, the process was completed. All sales personnel with less than 17 years experience with Boston Gas were terminated.

THE CURRENT DILEMMA - Changes Within

Since 1975 there have been several changes in the gas industry that have increased the supply of gas.

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*Boston Gas recently acquired a new northern division, companies serving Lynn, the Mystic River valley, and the North Shore. Sales personnel in these new acquisitions were unionized, while other Boston Gas sales people were not. Boston Gas officials decided to use seniority language which existed in the union negotiated northern division contract.

1. Conservation: Boston Gas officials have estimated that customers have reduced consumption by some 20 percent during the 1970's. Specifically, company officials felt that consumption had been reduced by about 2 percent in the last ten months (at the date of this case). This conservation has freed up supplies for additional customers.

2. Easing of Pipeline Supply Curtailments: Algonquin Gas has indicated that for the year ending August 31, 1979, it expects no curtailment of gas supply. Tennessee Gas has indicated that curtailments are expected to occur for the most part during periods of low demand. The curtailment would be more severe if not for a federally regulated system of gas allocation. These regulations give priority to residential users. New England and Boston Gas have few big industrial users and, therefore, are given preference in allocations.

3. Use of Supplementary Gas: The effect on the company of previous pipeline curtailments had been to increase reliance on supplementary supplies. A long-term contract (20 years) for imported Algerian gas has, so far, proven a reliable source, plus compatible propane gas from Venezuela has helped bolster supply.

THE CURRENT DILEMMA - Changes Without

In addition to supply factors, there have been a number of external factors affecting the natural gas industry. Political conditions, including the instability of the Middle East, the emergence of OPEC, and strife in Iran, have all caused oil prices to soar and supplies to be threatened. In the summer of 1979, government and industry spokesmen, as well as the public forums, debated whether there would be enough oil for the coming winter heating season and speculated on how high the price might rise.

Boston Gas became inundated with inquiries for gas conversions. Their Customer Activity Centers had been accepting initial sales inquiries since early summer 1979. This was done to relieve telephone traffic in the sales stores and to insure orderly, prioritized record keeping of sales inquiries. For the first eight normal workdays in July (1979), over 3,600 telephone heating requests were received. The company was concerned and placed an ad in area newspapers acknowledging the situation and urging customers to be patient.

The July 1979 public opinion polls indicated that the American people lacked confidence in the actions of President Jimmie Carter. The president was determined to regain this confidence by showing leadership in dealing with energy-related problems. In speeches during July, President Carter focused attention on the oil shortage and urged conversion to gas. Immediately after the president's second address on the subject, Boston Gas was flooded with conversion requests.

* * *

The effects of these activities have given Boston Gas some serious problems to wrestle with. In particular, the company must deal with the following:

1. Sales personnel in the company are now unionized, and their contract contains a no-layoff provision upon the completion of five years of service. However, one of the sales unions has been organized for less than five years.

2. Producers of gas furnaces, conversion units, and other hardware had decreased or ceased production following the shortage of natural gas supplies in the early 1970's and are unable to produce equipment fast enough to meet the sudden demand. These producers are also reluctant to increase production too rapidly given their previous experience.

TEACHER'S NOTE

TITLE: EVERY SILVER LINING MUST HAVE ITS CLOUD

GRADE LEVEL: 11-12 READING LEVEL: 10

I. OVERVIEW

The student will play the role of the chief executive officer of the Boston Gas Company. The student must make the decision to solve the immediate problems in the areas of public relations and meet the unprecedented demand to convert to gas.

II. GENERAL OBJECTIVES

1. Students will gain an awareness of how the energy crisis has affected Boston Gas' relationship with its customers.

2. Students will develop strategies for dealing with the energy crisis as it relates to the natural gas industry.

3. Students will become aware of the complexities of the energy problems as it relates to the natural gas industry.

III. CASE GOALS

A. CONGNITIVE BEHAVIOTAL OBJECTIVES

1. Students will be able to define orally or in writing the terms used in the case.

2. Students will gain an understanding of the executive decision-making process of the gas company.

3. Students will identify the immediate problems confronting the Boston Gas Company.

4. Students will develop and evaluate plans to deal with Boston Gas' current problems.

IV. PREPARATION PRIOR TO DISTRIBUTION OF THE CASE TO STUDENTS

A. TEACHER PREPARATION

1. Readings: "Natural Switch," Wall Street Journal, July 11, 1979.

2. Visuals

V. STUDENT PREPARATION

A. BEFORE DISCUSSING CASE

1. Wall Street Journal article above.
2. The Boston Gas case.

VI. CASE IMPLEMENTATION QUESTIONS

1. What was the relationship between the supply of natural gas and the demand for natural gas in 1974 and 1979?
2. How did the increased cost of oil effect the demand for natural gas in 1979?
3. Explain the considerations in reducing the sales force of Boston Gas in 1979?
4. Should Boston Gas increase their sales force in 1979 to deal with the increased demand for natural gas?
5. Discuss some reasons that Boston Gas had for promoting conservation?
6. Has the political situation in the Middle East influenced any of the decisions made by Boston Gas?
7. How does the increased demand for gas have an impact on the price of gas?
8. How might national political pronouncements by President Carter affect the demand for gas?
9. What is the relationship between Boston Gas and its various suppliers, particularly suppliers of gas burners?
10. How does the case demonstrate interdependency?
11. How has the collective bargaining agreement between Boston Gas and its unions influenced any of its decisions?
12. How might further collective bargaining agreements be affected by the energy situation in the United States?
13. If you were a vice president of Boston Gas, how would you handle the problem of layoffs? How would you deal with supplies?
14. Would we better served with fewer/more gas companies?
15. Should public utilities, like the Boston Gas Company, be nationalization?

VII. STUDENT ACTIVITIES

1. Develop a series of newspaper ads dealing with the increased demand and lack of supply of natural gas.
2. Prepare a written justification for increasing the price of natural gas to be presented to the Department of Public Utilities.
3. Compose a letter from Boston Gas to their burner supplier concerning increased production.

4. *Develop a diary of the public relations director of Boston Gas with the entries dealing with the public relations aspects of the case.*

5. *Construct a telegram to President Carter from Boston Gas concerning his stand on conversion from oil to gas heating.*

6. *Draw a cartoon illustrating the politicak problems in the Middle East that affects the supply of gas.*

7. *Write a newspaper editorial defending/attacking the actions of Boston Gas.*

8. *Prepare a two minute news broadcast explaing the Boston Gas situation in 1979.*

9. *Write a report on the history of Boston Gas.*

10. *Build a project showing the localities served by Boston Gas.*

CROSS AND SHIELD SING THE BLUES

The health of the people is really the foundation upon which all their happiness and all their power as a state depend.

-Benjamin Disraeli-

BACKGROUND

Health care is the third largest business in the United States, just behind agriculture and construction in terms of dollars spent. Health insurance has become a growth industry because this type of insurance has become almost universally provided to employees by employers through group plans as a fringe benefit of employment. Many people purchase additional insurance to cover dental care and special health requirements such as provisions for serious illness.

In 1935, President Franklin D. Roosevelt's Committee on Economic Security endorsed a compulsory national insurance program. The Wagner-Murray-Digwell Bill in 1943 proposed adoption of a compulsory national health insurance program to be paid for through a payroll tax. From 1945 to the present there have been efforts to establish some type of prepaid national health insurance plan.

In the Commonwealth of Massachusetts, 60 percent of employed persons have their health insurance covered by Blue Cross and Blue Shield, a non-profit organization in the health insurance business. Blue Cross and Blue Shield were established by statute passed by the General Court as non-profit bodies. Blue Cross handles payment of hospitalization costs; Blue Shield covers physician's fees and a dental corporation handles dental payments. The three companies have separate presidents and boards of directors, but share staff for effective operation. The program is highly regulated by the Massachusetts Insurance Commission and the Commission must approve any

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This case was prepared by Randee Martin (Winchester, Massachusetts,High School) and Betsey Greenman (Thayer Academy, Braintree, Massachusetts), under the supervision of the 1979 NU/FEI/BHELP Summer Social Studies Workshop faculty, as a basis for classroom discussion rather than to illustrate either effective or ineffective handling of a particular situation.

rate increase. Regulations require that Blue Cross and Blue Shield cannot refuse health insurance to anyone who applies for coverage.

Next to the Federal Medicare program, Blue Cross and Blue Shield, established in each state, are the largest providers of health insurance in the United States. Blue Cross and Blue Shield is a one billion dollar industry in Massachusetts with 85 percent of its payments in outpatient claims and 15 percent in inpatient claims. The two companies also act as an intermediary for Medicare, paying out Federal money for Medicare claims.

In recent years, health costs have increased at an alarming rate. Developments in medical technology involving highly specialized machines have combined with inflation to force up costs of hospital treatment with a corresponding rise in the price of health insurance. In the interest of containment of costs, Blue Cross and Blue Shield have been considering a number of options. One of these has been the establishment of Health Maintenance Operations (HMOs). HMOs are expected to help hold down health care costs by providing clinics where members receive help in maintaining their health and preventing sickness. As the name suggests, Health Maintenance Organizations are established to cut the cost of sickness by maintaining the health of its members. The regular medical staff emphasizes the importance of regular physical examinations and preventive medicine. Blue Cross and Blue Shield have been active in encouraging the development of HMOs in the Commonwealth.

* * *

July 16 9:30 am

MEMO

TO: William Omare, Treasurer, Blue Cross and Blue Shield

FROM: Edgar Arthur, President, Blue Cross

Bill:

Please send up a sample of the work of your people who are preparing the report for the Board this week. I need some hard data on the skyrocketing health costs from you to back up our concern over where to try for cut-backs. Thanks. Ed

July 16 10:00 am

MEMO

TO: Edgar Arthur, President

FROM: William Omare, Treasurer

The hard data you requested are attached in graphs and tables showing the alarming rise in general health costs and the impact of those rises on the operation of the Blues. There can be no doubt that a remedy to rising health costs and the resulting rise in cost of health insurance must be found.
Is the data provided here sufficient for the report to the Board of Directors? Bill

July 16 1:30 pm

MEMO

TO: Bill Omare

FROM: Edgar Arthur

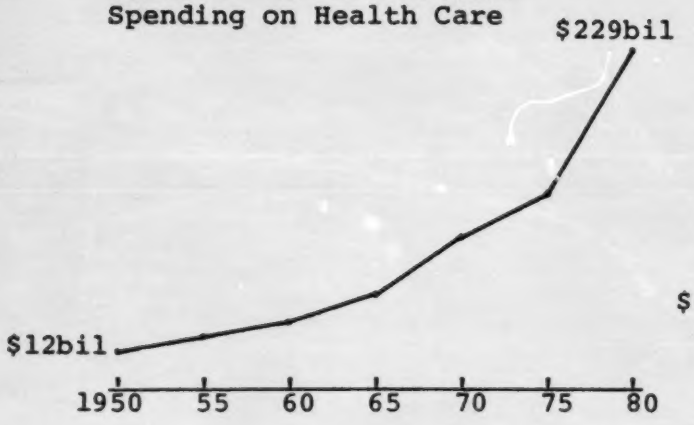
The data in the graphs and tables from your office will be most useful in the report to the Board. The fact that health care cost Americans $162.6 billion in 1977 made the health industry the third largest in the nation! By cutting the cost of health care delivery, we can keep our rates down, making our services available to more for less.
We will ask the Board to review our recommendations cor cutting back costs in the four areas of

(1) physicians fees and services
(2) hospitalization
(3) Blue Cross Blue Shield management
(4) prevention of personal sickness

In the last category, Blue Cross and Blue Shield have, as you know, already begun a drive to educate people to improve their own health by daily exercise and sound diet. This is the "Health Thyself" program which aims at reducing health care cost by reducing incidents of illness requiring hospitalization or physicians' attention.

GRAPH I

Total Public and Private Spending on Health Care



GRAPH II

Average Daily Charge for a Semi-private Hospital Room

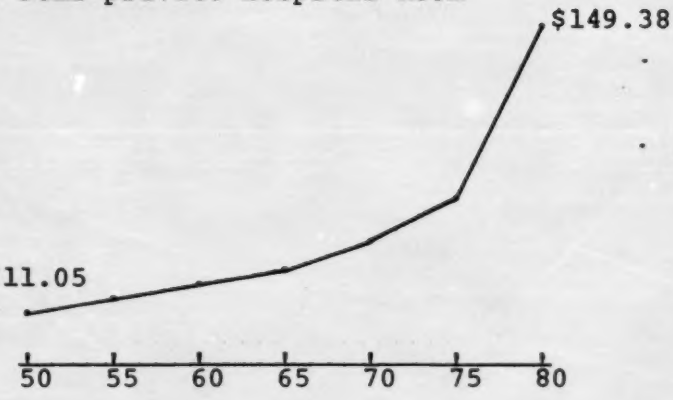


TABLE 1

What Americans Spent Health Dollars For, 1976-1977

Personal Health Care	$142.5 bil.
Hospital care	65.6 bil.
Physicians' services	32.2 bil.
Dentists' services	10.0 bil.
Other prof. services	3.2 bil.
Drugs	12.5 bil.
Eyeglasses	2.1 bil.
Nursing Home care	12.6 bil.
Other human services	4.3 bil.
Administrative Expenses	7.6 bil.
Public Health Activities	3.7 bil.
Research	3.7 bil.
Construction	5.1 bil.
TOTAL	$162.6 bil.

Source: US News & World Report (March 5, 1979)

TABLE 2

Massachusetts Blue Cross and Blue Shield
Statement of Expenses 1977 and 1978
(Thousand Dollars)

	1977	1978
Blue Cross		
Premiums earned	$687,739	$750,850
Claims incurred	623,120	708,278
Operating expenses	27,740	31,496
Net Income	40,214	21,607
Blue Shield		
Premiums earned	252,299	271,121
Claims incurred	202,887	226,139
Operating expenses	27,749	30,967
Net Income	20,556	19,811

Source: Massachusetts Blue Cross and Blue Shield Annual Report, 1978.

If your office has any further recommendations for specific programs with which to cut-back costs, kindly let me know them before we meet tomorrow morning. Ed

July 16 4:30 pm

MEMO

TO: Edgar Arthur, President

FROM: William Omare, Treasurer

Our efficiency team and I wanted to share these suggestions with you before the meeting tomorrow. If at that meeting we could agree upon our priority recommendations from this list, I believe that the presentation to the Board this week would be quite effective. The list as it presently stands is as follows:

1. Review claims received to make sure that medical and hospital services are properly used.
2. Regularly check hospital bills, comparing them with doctors' orders and other medical records to make sure the services were actually ordered and given.
3. Compare actual rates with hospital rates approved for payment by the Blues.
4. Maintain a field staff of professional public relations representatives who obtain the support of physicians on program to contain costs.
5. Meet with specialty medical societies to review unusual increases in use of services and seek to identify and check procedures that appear to be over used.
6. Encourage home care programs to lower cost by getting patients out of the hospital earlier or by avoiding hospitalization altogether.
7. Encourage surgery on the day of admission, where possible, to help reduce the length of stay in the hospital.
8. Undertake second-opinion surgical programs to try to hold down unnecessary surgery.
9. Encourage pre-admission testing, allowing the patient to get necessary X-ray and laboratory tests before entering the hospital, often avoiding a day or two in the hospital.

10. Contribute money and staff time to help health planning agencies at community and regional levels reduce duplication of services and uniformity of available services.

11. Coordination of benefits between Blue Cross and Blue Shield to save money by not allowing a patient to collect benefits from two or more programs that add up to more than the cost of the services received.

12. Active cooperation with other groups to encourage the establishment of Health Maintenance Organizations on a state-wide plan with the intent of reducing the cost of health care provisions by reducing illness generally.

Which of these proposals should be recommended to the Board as top priority concerns needs to be decided. Bill

* * *

TEACHER'S NOTE

TITLE: CROSS AND SHIELD SING THE BLUES

GRADE LEVEL: 8-9 *READING LEVEL: 8-9*

I. OVERVIEW

See BACKGROUND. The case is presented through memos from the Blue Cross president and treasurer. The case concerns the problem of cost containment and considers a number of options by which the cost of health care might be reduced. Students are asked to decide what plan they might think desirable and reasonable.

II. CASE GOALS

A. COGNITIVE BEHAVIORAL OBJECTIVES

1. Students will be able to develop options to solve the problem.

2. Students will be able to interpret graph and table materials correctly.

3. Students will be able to define the following terms:

non-profit organization	*health insurance*
payroll tax	*fringe benefit*
group plan	*marketing*
inpatient	*outpatient*
corporation	*cost containment*

B. VALUE JUDGMENTS

1. Students will be able to make a hypothetical decision based on evidence presented.

2. Students will be able to take a position on the decision made.

III. PREPARATION PRIOR TO DISTRIBUTION TO STUDENT

A. TEACHER PREPARATION

1. Readings: see Bibliography

2. Information

a. 1974-1978 hospital labor costs nationally accounted for 60 percent of hospital budgets, having risen 28.4 percent in that same period.
b. Hospitals receive 40 cents of every dollar spent on health care.
c. In Massachusetts, 60 percent of all hospitals operate at a loss.
d. In the United States, one dollar in every 11 goes for health care--9 percent of GNP.

e. *Federal expenditures made up 12 percent of health spending in 1965 and about 30 percent in 1978.*
f. *The health care industry employed 4.6 million people in 1978.*
g. *BC/BS of Massachusetts provided benefits for more than 3.4 million members in 1978.*
h. *BC/BS cannot refuse insurance to any applicant by law.*
i. *Net reserve of Massachusetts BC/BS was $137 million in 1978.*

B. STUDENT PREPARATION

IV. CASE IMPLEMENTATION SUGGESTIONS

A. QUESTIONS FOR DISCUSSION

B. ACTIVITIES FOR STUDENTS

1. *Using the following chart form, have the students carefully fill in the arugments for and against each of the proposals in the memo from the treasurer which contains 12 options. (Expand the chart on several pieces of paper)*

RECOMMENDED ACTION	*ARGUMENTS IN FAVOR*	*ARGUMENTS AGAINST*
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
11.		
12.		

2. *Compare the cost of hospital rooms in several hospitals in your area. How have these costs increased over the past 5 or 10 years? Make a graph showing this cost rise.*

3. *Find out what health insurance plan your parents have. What coverage is provided by the plan? How much does it cost per year? How has this cost changed over the past 5 or 10 years?*

4. *How much did it cost for you to be born? How does this compare with the cost of delivering a baby today? Can you find out whether the techniques of baby delivery have changed substantially since your birth? If they have, do the new procedures account for much of the change in the cost of a delivery? Explain.*

5. *If there is a HMO in your area, compare its cost of membership with other health insurance policy costs. How does coverage differ, if at all?*

6. *Some doctors support the concept of the HMO and others oppose their creation. Find out how doctors in your area feel about the HMO issue. What opinions concerning the desirability of an HMO can you gather? Do the doctors you talk with on this issue seem willing to join the staff of a HMO if the opportunity arose? Why or Why not?*

7. *In what ways are people you know trying to reduce their health costs? Give some specific examples.*

V. RESOURCES

A. BIBLIOGRAPHY

Blue Cross Blue Shield Annual Report 1978.

Building a Healthier Company. Blue Cross and Blue Shield and American Association of Fitness Directors in Business and Industry.

Existing Problems to be Corrected by a National Health Program. Blue Cross Blue Shield. Mimeographed.

How All of Us Can Help Each of Us Hold Down Health Care Cost. Blue Cross Blue Shield.

US News & World Report (March 5, 1979).

B. VISUALS

See Charts and Tables in case.

PLASTICS! PROFIT! PRODUCTION!

Nickerson Machinery Company, Inc., is a family corporation located south of Boston in Norwell, Massachusetts, which holds the enviable position of being one of two companies serving a growing market in the plastics injection moulding industry. This market is considered by experts to be still in its infancy. The growth of Nickerson over the last thirteen years indicates the success possible when coupled with knowledgeable business decisions.

Until 1966 Arnold Nickerson, president of the firm, had worked in the plastics machinery industry. His career was considered successful, but Mr. Nickerson had for some time seen the need for someone to supply the $100 nozzle that injects the plastic into a mold on a $100,000 production machine. He also saw the need to deliver that part to the buyer in a reasonable time period. This was something that machine manufacturers had not been able to do; they were more interested in selling another $100,000 machine.

Not wanting to jeopardize the career he had developed over the years, Mr. Nickerson began a small venture mailing a flyer advertising one item. This flyer went to customers with whom he had been doing business over the years. Every night he would address and mail 50 flyers. The orders generated would be packed and shipped from Mr. Nickerson's parents home in Quincy, Massachusetts. This arrangement continued with increased volume until 1971 when Mr. Nickerson took the giant step--he decided to leave his full-time employment, return to Quincy, and devote his energies to forming his own company, Nickerson Machinery.

This case was prepared by John Deehan and Robert Cole (Whitman-Hanson Regional High School, Whitman, Massachusetts), Betty Parisi (Natick, Massachusetts, Public Schools), George Rogers (Milton, Massachusetts, Public Schools), and Alton Flynn (Cohasset, Massachusetts, Public Schools), under the direction of the 1979 NU/FEI/BHELP Summer Social Studies Workshop faculty. This material is to be used as a basis for classroom discussion rather than to illustrate either effective or ineffective handling of a particular situation.

Several initial decisions were made by Mr. Nickerson which helped the business get off on a strong footing. The new business was located in a "storefront" location in Wollaston, a section of Quincy, to keep the rent low. It was also decided that the company would have all items of inventory either manufactured for Nickerson to their specifications or labeled with a Nickerson logo and stock number. By relying on outside manufacturers at this time, Nickerson could keep its inventory, fixed costs, and variable costs as low as possible. Their inventory catalog would contain only items with a proven need or a readily identifiable potential. Nickerson also decided that a staff of salespeople would only keep costs high so that customer contacts would only be through catalog mailings and individual mailings throughout the year.

The year 1977 began a dynamic period for the company. During that year, the company moved from its "storefront" operation into a large new plant in Norwell's Accord Industrial Area. This larger and more efficient building not only allowed for storage of a wider range of products, but was also responsible for an increase in productivity. Nickerson regarded 1977 as a banner year for the company.

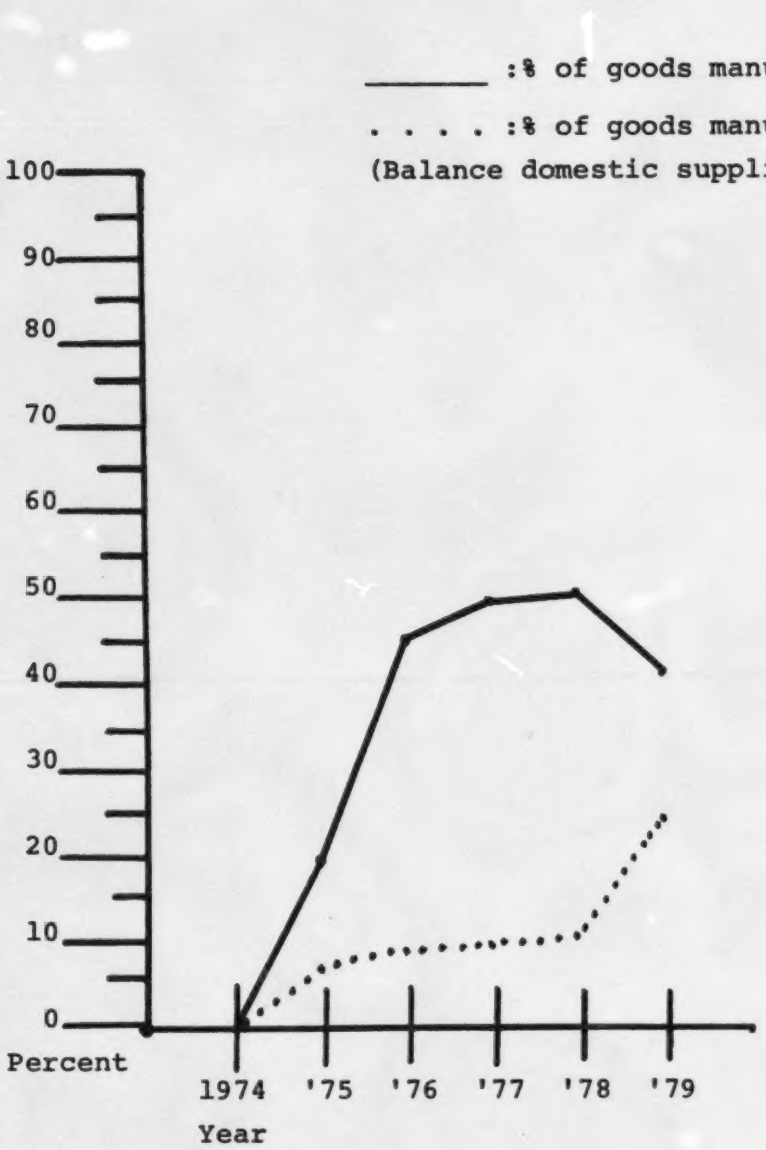
As in many industries, the company became aware that low labor costs in other nations, principally in the East Asian countries, made manufacturing in these areas increasingly attractive. By 1977, some 50 per cent of Nickerson's inventory was produced outside the United States. In the next 18 months there was a sharp decline in the value of the American dollar which added substantially to the cost of inventory. The amount of money lost through the currency exchange increased ten times between 1977 and 1979. While not the 'end of the world,' Nickerson Machinery faced a serious problem that management had to resolve.

A recent study by the firm indicated that if the company entered into the select manufacturing of items in the inventory, the cost would be some $400,000. Company expansion in the past had been done by using only profits in the business, but Nickerson's credit rating was good and expansion funds could be obtained from outside the business. However, the dollar value overseas was becoming extremely

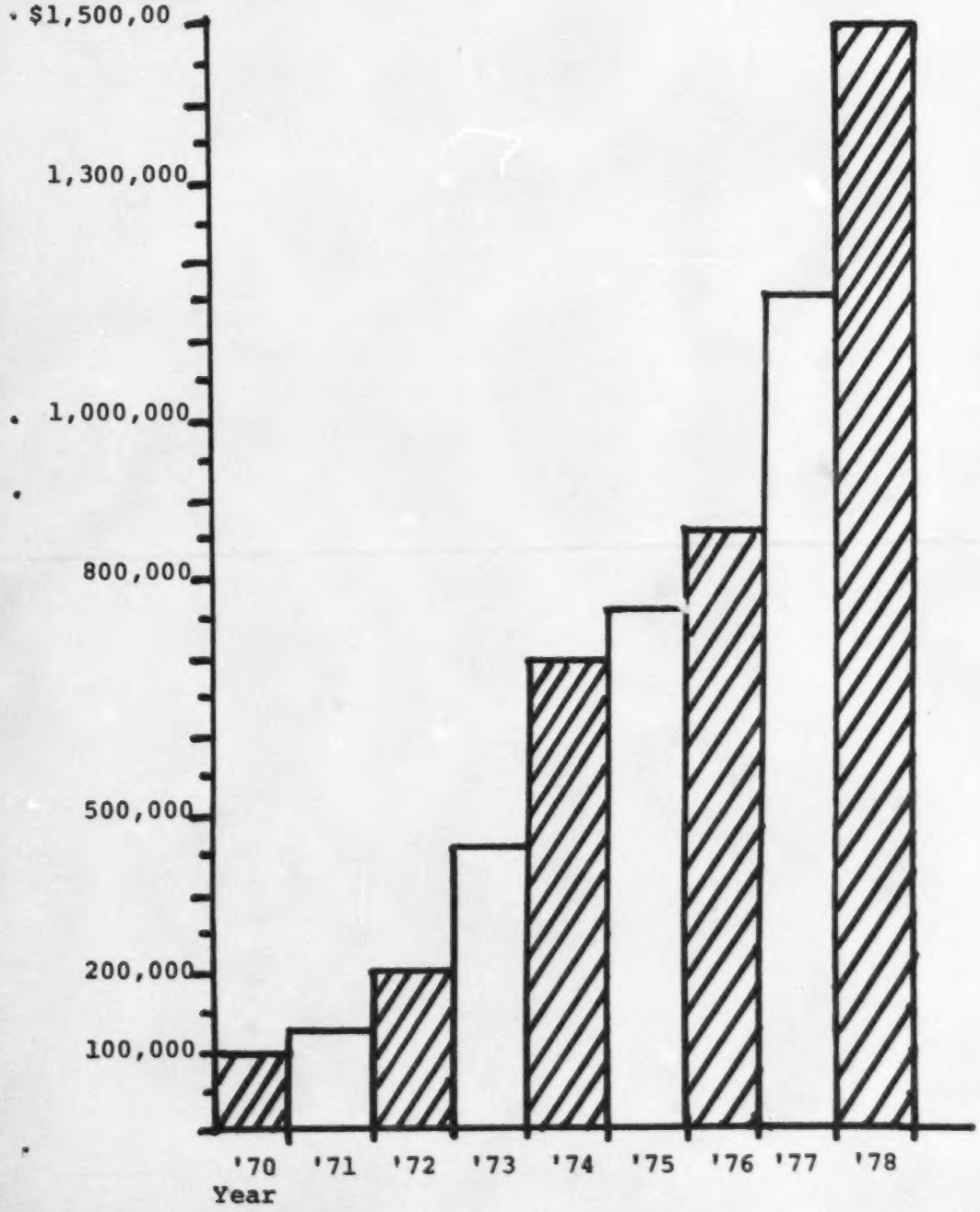
difficult to predict; overseas labor costs to foreign suppliers were not all that important as in the past and foreign suppliers wanted a six months lead to fill orders suggesting that savings were not all that great.

The Nickerson company was in good condition, but they were faced with an important business decision. Arnold Nickerson had to resolve the question as to whether or not he should enter into his own manufacturing procedures?

NICKERSON MACHINERY CO., INC., INVENTORY MIX



NICKERSON SALES HISTORY



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TEACHER'S NOTE

TITLE: PLASTICS! PROFIT! PRODUCTION!

GRADE LEVEL(S): 9-11 READING LEVEL: Same

I. OVERVIEW

A. The student will be exposed to several critical aspects of current business realities.

1. How does an individual successfully enter into a business venture that had not existed before, when one considers that seven of eight new businesses fail in the first five years?

2. How does the firm expand into manufacturing while still maintaining their position in the distribution market?

B. The decision was made to enter manufacturing. During 1979, this accounted for 25 per cent of goods sold, largely at the expense of foreign manufacturers.

II. CASE GOALS

A. COGNITIVE BEHAVIORAL OBJECTIVES

1. To identify the following terms:

inventory	fixed costs
variable costs	catalog
customer contact	productivity
business venture	advertising
sales volume	sales potential
profit margin	currency variables
imports	administrative costs
sales history	foreign competition
subcontract	capital investment
direct sales	private (family) corporation
forms of ownership	

2. To identify with an accuracy of $\pm$ 5 each years' performance on the graphs.

3. To apply these terms (GOal A1) in an analysis of the life of a small to medium size business.

4. To calculate with an accuracy of $\pm$ 5 the per cent increase from the previous year. Numerical values must be assigned to the vertical scale. Proprietary information has been disguised, but not to the extent of affecting percentage relationships or values.

5. *To develop techniques for analyzing the dynamics of competition in a free market economy.*

B. *VALUE JUDGMENTS*

1. *To recognize and appreciate risk factors in small business.*

2. *To evaluate the norms of success in the small business environment.*

3. *To recognize the economic circumstances influencing competition in the market setting.*

III. *PREPARATION PRIOR TO DISTRIBUTION OF CASE TO STUDENTS*

A. *TEACHER PREPARATION*

1. *Readings:* Paul H. Tedesco, Teaching With Case Studies (Boston: The Federal Reserve Bank of Boston, revised edition, 1979)

2. *Visuals:* Obtain a Nickerson catalog from a local plastics manufacturer.

B. *STUDENT PREPARATION*

1. *Before reading the case, assign the following glossary...*
   - *fixed and variable costs*
   - *profit margin*
   - *administrative costs*
   - *capital investment*
   - *currency variables*
   - *subcontractor*
   - *direct sales*
   - *private corporation*

2. *Have the students search the local business community for similar sole proprietor or family corporate businesses.*

3. *After the day of discussion, visit a plastics manufacturer or collect items of everyday life that are "injection molded." Also study the growth of a personality associated associated business firm.*

IV. *CASE IMPLEMENTATION SUGGESTIONS*

A. *QUESTIONS FOR DISCUSSION*

1. *How might a small business raise capital? Discuss the advantages, disadvantages, internal, banks, government.*

2. *How can a person enter business and still maintain personal financial security?*

3. *Are there any alternatives to manufacturing which may have been considered by Nickerson?*

4. *How would national or global economic problems effect these decisions? The 1979 energy crisis?*

5. *Could this company weather drastic changes in the business cycle? i.e. a recession.*

6. *What considerations must be weighed before cutting off one's sources of supply? Could Nickerson turn back after replacing his foreign manufacturers with his own machines?*

7. *How do you think Nickerson provides "Same Day Service?"*

8. *What factors did the Nickerson family have to consider when questioning whether or not to enter manufacturing?*

V. *RESOURCES*

A. *REFERENCES*

B. *VISUALS*

Prepare transparencies of graphs and flyer.